



San Diego City Attorney **MICHAEL J. AGUIRRE**

NEWS RELEASE

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Contact: Maria Velasquez, Communications Director: (619) 235-5725 (pager & voicemail) mvelasquez@sandiego.gov

COURT TESTIMONY REVEALS EMPLOYEE PENSION BENEFIT INCREASES TOTALED \$900 MILLION, A LARGER LIABILITY THAN HAD BEEN PROJECTED

San Diego, CA: A pension expert hired by the City testified in court today that two pension agreements made in 1996 and 2002 added nearly \$900 million in new benefits to the City's pension system. The City Attorney's previous calculations estimated the liability for those deals added between \$500-\$700 million in new pension benefits. The City's total pension deficit has been estimated to be between \$1.4 billion - \$1.7 billion.

Joe Esuchanko was hired by the City to review and evaluate the City's pension plan. His testimony in City Attorney Michael Aguirre's pension case included a report examining the financial impact of the various funding schemes associated with pension benefits, including Manager's Proposal I (MP1) in 1996, The Corbett Settlement, Manager's Proposal II (MP11) in 2002, the Gleason Settlement, purchase of service credits, the 13th Check and Deferred Retirement Option Plan (DROP), and the increased benefits of individual Pension Board members.

City Attorney Aguirre contends that these enhanced employee pension benefits granted by the City Council in exchange for the San Diego City Employees' Retirement System (SDCERS) allowing the City to underfund the pension system, are unlawful and must be rescinded.

The City Attorney's action to void MP1 and MP11 is based on violations of California Government Code section 1090's conflict-of-interest laws; the California Constitution Article XVI, section 18, which requires voter approval before creating certain financial liabilities; and San Diego City Charter section 99 Liability Limit Law, which establishes the "pay as you go" principle as a cardinal rule of municipal finance. The City Attorney seeks to:

- A. Rescind new pension benefits that were granted under the 1996 Manager's Proposal I, which included an unfunded increase in the retirement factor used to determine retirement benefits; purchase of service credits of up to five years which were priced below market value; and the Deferred Retirement Option Plan (DROP) that allowed a member to "retire" from the City and begin earning his or her retirement benefits while remaining employed by the City.

(MORE)

- B. Rescind new pension benefits that were granted under the 2002 Manager's Proposal II, which increased pension benefits without a funding source; and created the so-called "Presidential Benefit" whereby certain union presidents could have their union salaries counted along with their City salaries for the purposes of calculating their retirement benefit.

The pension trial began on Monday, October 30, 2006 in the courtroom of San Diego Superior Court Judge Jeffrey B. Barton. The trial has been divided into three phases. Phase I will determine whether the appropriate parties are before the court, whether the Corbett and Gleason settlements validate the pension benefits granted under MPI and MPIO, and whether the judge can fashion an appropriate remedy.

You can review opening statements of the pension trial, *SDCERS v City Attorney Michael J. Aguirre, et al.* GIC841845 by going to www.sandiegocityattorney.org and clicking into the Media Center, then Videos.

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